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ABSTRACT

This issue in the series, "Research at a Glance," explores Australian small business and its attitudes to training, needs, how small business becomes involved in training, and how training happens. It begins with an overview of findings, some policy options, and a list of 11 references used in preparation of this publication. Research findings are presented in a question and answer format. The following findings are discussed: small business does not like externally provided formal training in management or technical skills areas, but prefers short training developed to meet its specific needs; vocational education and training (VET) delivery to small business has concentrated on generic externally provided courses for small business managers just starting out that have reached only about a quarter of all small businesses; small business owners and operators prefer a learning style that is problem-based, practical, and integrated with their businesses; awareness of training options and the value of training are not an inducement to train; the diversity of the small business sector means that general training programs are of limited value; training needs to be market-orientated; and networks--social and business--are the prime source of information and learning for small business. The report suggests that, if VET is to secure a place in the world of small business, it must penetrate the networks. (YLB)

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RESEARCH AT A GLANCE

The series 'Research at a glance' sets out to disseminate the findings and outcomes of research in vocational education and training (VET). It also aims to identify the policy implications of the research and how those findings might be applied in the VET sector. It is hoped it will be an aid to both policy-makers and practitioners, providing information to improve the VET sector.

Small business and VET—overview

This issue of 'Research at a glance' explores small business and its attitudes to training, needs, how small business becomes involved in training and how it happens.

- Small business doesn't like externally provided formal training in management or technical skills areas, but this doesn't mean that they don't want to participate in training. They prefer short training developed to meet their specific needs.
- VET delivery to small business has concentrated on generic externally provided courses for small business managers just starting out. Unfortunately these approaches have only reached about a quarter of all small businesses. The increase in flexibility and diversity of VET programs has not succeeded in increasing participation.
- Small business is most likely to decide to train when faced with a crisis, government regulation or a change to business—a business problem. Awareness of training options and the value of training aren't, by themselves, an inducement to train.
- If they do decide to train, they want training that helps them learn in places, at times and in ways that suit them. And they want to learn how to solve their immediate and specific problems.

In other words, small business owners and operators prefer a learning style which is problem-based, practical and integrated with their business.

- The diversity of the small business sector means that general training programs are of limited value. Training needs to be market-orientated. Because small businesses vary so much and operate in a very diverse market an individual approach, using a business counsellor, is often the best approach.
- Networks—social and business—are their prime source of information and learning. Networks are critical sources of information and learning for small business. Successful management of their network relationships is the key to their business survival. Training will be most effective when it is conducted through the network.
- The first port of call for advice for small business is often its networks. It is not interested in training per se. It is interested only if training provides an answer to its business problems. Often a small business can learn what it needs from its network relationships.
- Many in small business won't ever train beyond 'teaching the job' to new staff. Over half the total number of small businesses don't employ staff and should probably pay for management training on a fee-for-service basis.
- The size of the remaining market—comprising small businesses who *might* train and those who *should* train—is not clear. It is probably between 25% to 50% of all small business. It is a diverse market with training needs that vary according to many factors. This affects the way training is marketed and the way it is provided.

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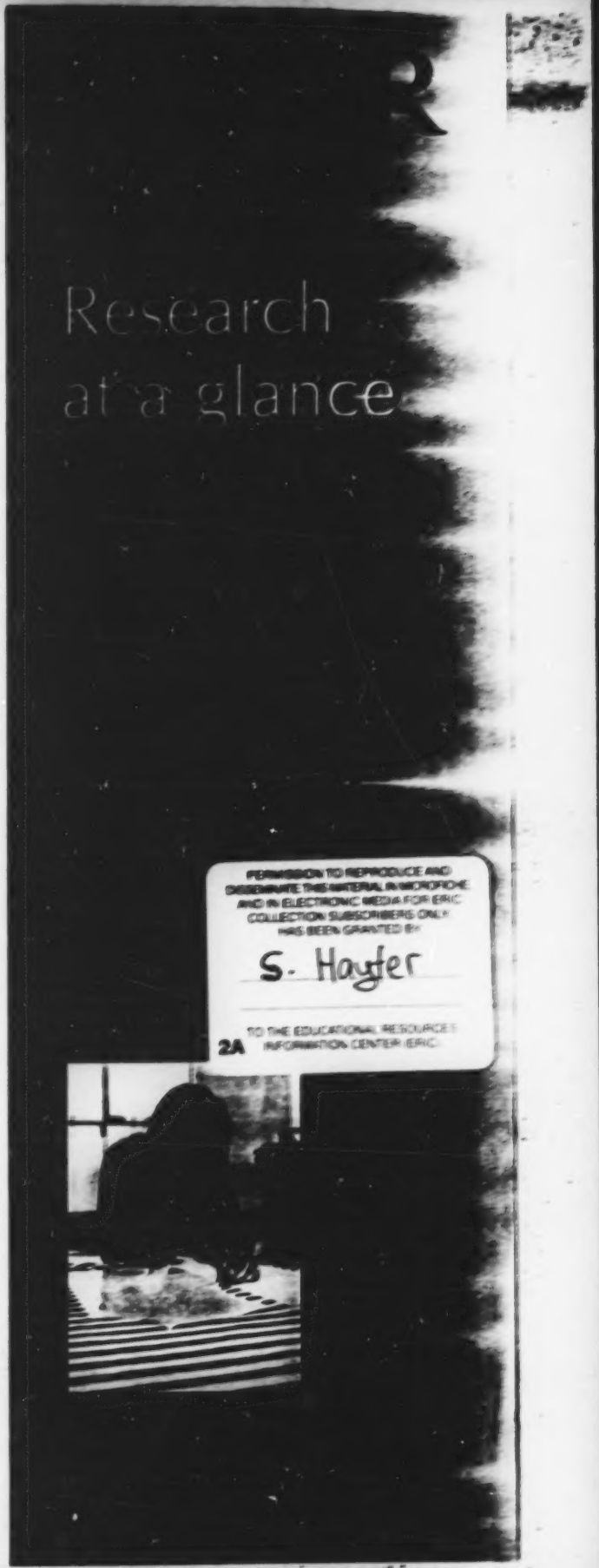

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Consider ... some policy options

1. One of the current major policy objectives of the national VET sector is to increase employment opportunities for young people through the New Apprenticeships. Training packages are being developed which underpin these apprenticeships. It is essential that these packages are flexible enough to accommodate small business.

2. Training packages should be treated as a framework on which providers can customise training for small business. Naturally, the context in which a small business operates will change a competency and the way it is applied. The capacity for providers to recognise this is essential for involving small business in recognised training. The system should be driven by the needs of clients—not the reverse.

   User choice creates the circumstances for a small business to have some of its needs met but formalised approaches are still not their preferred method of training. While user choice is a more attractive training option, small business does require an additional inducement. The real benefit of user choice for small business is the opportunity it creates to train on the job.

   Marketing recognised training to small business is difficult because of the poor record of the VET sector in developing genuinely 'market-orientated' products, the diversity of small business and the attitude of small business to training. Some simple ground rules should be applied.

   - Marketing should highlight the business problems faced by small business rather than selling training as a generic answer or the 'right' thing to do.
   - Small businesses trust their accountant, their solicitor or their industry association more than they trust government or their local technical and further education (TAFE) college. If these people are not marketing training then the small business is less likely to become involved.

3. Networking and networks are the keys to the way small business does business and the way it learns.

   A small business already involved in training reacts differently from those with no previous involvement and is generally more receptive to the idea of training and its benefits.

   Becoming involved in small businesses' networks is the most effective way for a training provider to make small business aware of the training services available. Integrating training delivery with small business networks through group discussions, mentoring and use of practising business people is most effective.

4. The integration of training with other services provided by government to small business is essential. Austrade, the Tax Office and State and Commonwealth industry and small business agencies all offer advice to small business at critical stages of the business processes. They all offer training services as well that relate to their own area of expertise. None of it is recognised training and very few of the agencies have links to the VET sector. In fact a recent study to determine the feasibility of a 'Single Entry Point' for small business to government services did not include any analysis of, or questions on, training as a government service.

5. The more successful programs for small business in the UK and the USA put small business in touch with business counsellors as soon as possible. Business counsellors have an understanding of the problems of small business, how training might help and appropriate available options. Developing the skills of accountants, solicitors, bank managers and TAFE college staff and providing them with information on training options to assist small business would be a step in the right direction.

6. In general, a greater degree of freedom for providers to take risks, innovate and let the learning processes used by small business drive the system is worth a try. New, diverse, customised training products delivered in a flexible way will not, by themselves, provide the answer.

What the research says ...

The research on small business is packed with arguments and theories about what works, each claiming to have the definitive answer. In truth, the small business training market is so complex and heterogeneous that every theory probably works for someone in some situation. The trick is to devise an approach for small business where, early in their relationship with the training system, they get accurate advice on what is the right answer for them.

Now read on ...

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What is small business?

A business is regarded as 'small' if:

- it is independently owned and operated
- it is closely controlled by owners/managers who also contribute most, if not all, of the operating capital
- the principal decision-making functions rest with the owners/managers

Figures 1, 2 and 3 show the make-up of the small business sector.

Small business (figure 1) accounts for the great majority of businesses. Only about 4.5% of businesses are medium to large or in the public trading or government sector. Of the remaining 95.5%, most (899 700) are non-agricultural small businesses. Of these 45.5% don't employ any staff.

While the public sector employs 17.9% of people, small business makes up 51.4% of private sector employment (figure 2). Figure 3 shows that of the 3 501 900 employed in small business, 93.7% are employed in non-agricultural small business; 28.7% of these are employers or sole traders, the rest (71.3%) are employees. In all 19.7% of the non-agricultural small business workforce are sole traders; that is, they employ only the owner/manager.

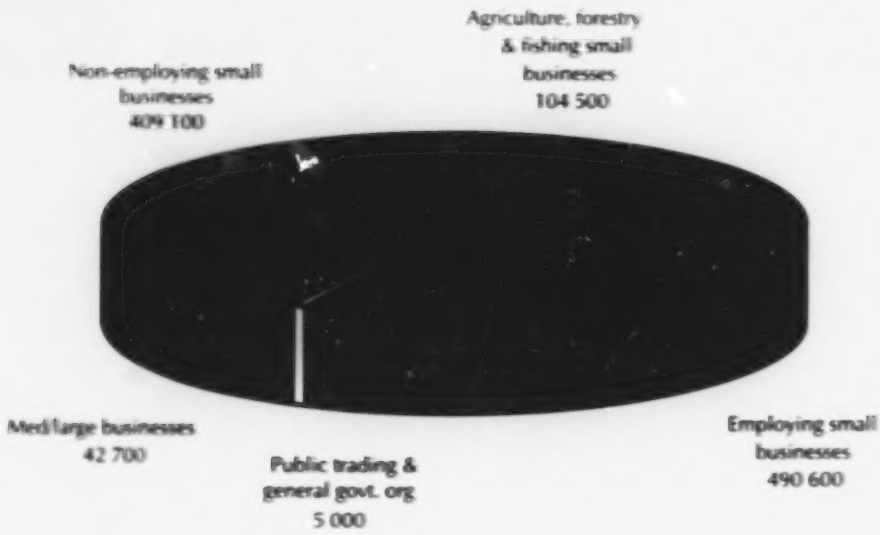
Does small business want to train?

It is generally assumed that the attitude of small business to training is negative. Coopers & Lybrand (1994a) show that as far back as 1980, Bailey and Rövston found that training orientated owner-managers were more highly educated but were a low percentage of the population of small business owners. In 1985, a survey by Reark found 'a large proportion of small business owners were indifferent to the need for training'. Successive studies by the Bureau of Industry Economics (BIE), Coopers & Lybrand (1994a), Ernst & Young and the Queensland Small Business Corporation confirm this—approximately 27% sought advice or training prior to commencing business; only about 23% have attended training since entering business.

However, the concept of 'training' used in most of this research sees training as 'structured recognised training programs delivered by training providers external to the small business'. Much of this training is influenced by management and organisational learning theory relevant to large businesses and organisations.

The structure of Australian business

Number of businesses
1996-97



Total
1 051 900

Figure 1

Although small business reacts negatively towards this sort of training it doesn't follow that they don't train, don't learn and aren't interested in acquiring new skills and information that will assist them with their business. Unfortunately, as noted by Coopers & Lybrand (1994a): 'There is a dearth of research on how owner/managers identify training needs, how they respond to alternative approaches and the effectiveness of existing programs'. Further, there is little evaluation of training programs for small business to determine success in:

- changing the bottom line
- changing attitudes to training
- increasing training activity
- improving the performance of the business

Existing training products for small business in the public sector rely on the theory that there is a higher incidence of training in small business where the owner-manager has post-school and/or management training. As a result small business managers are seen to need management training which will lead to improved business performance and an increase in the amount of training undertaken by employees. This, it is believed, should also reduce the number of business failures. This thinking has created a surfeit of general management programs aimed at commencing small business managers.

However, nearly 80% of small businesses (65% with the same owner/manager) have been in business for more than five years and, according to the 1996-97 ABS data, 45.5% of non-agricultural small businesses don't employ anyone.

It is not hard to conclude that the current approach—which has its origins in the BIE report of 1991, confirmed by the Karpin report more recently—creates the observed negative attitude of small business to training because:

- general management training by external providers is not valued highly by small business
- in fact not much training is specifically targeted at the majority of small businesses

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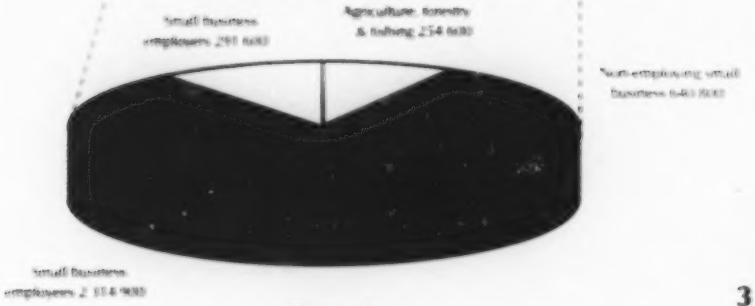
The structure of Australian business

Number of employers and employees 1996-97

Total 8 302 900

Figure 2

Small business



Total 3 501 900

Figure 3

How much training?

Training for small business has been a priority for expenditure by governments and training authorities for some years now. It may be useful to ask how much training small businesses actually need and how much of it should be publicly funded. The following is some useful information to start off the debate.

About a quarter of all small businesses are already involved in training, through apprenticeships, traineeships and publicly funded management skills programs. Coopers & Lybrand (1994b) estimate they spend a further $100m on external training. (This figure includes the cost of wages for time away from the business.) It is estimated that this represents about 25% of the market.

However:

- 45.5% of non-agricultural small businesses don't employ anyone and are unlikely to. There may be public benefit in these small businesses performing better, but the benefit of training the proprietors of these small businesses is largely private
- a significant proportion of small businesses are dominated by routine work with low skill levels. They do not require training to be successful beyond initial 'teaching the job'
- many small businesses compete on the basis of low cost and location rather than quality or new products. It is the latter rather than the former which creates a need for training
- the fastest growing sector of small business comprises those owned by women as sole operators. Most are not interested in expansion or employing a workforce because they have entered business with different social or personal goals, e.g. independence
- a small business is generally less likely to employ young people and the majority of small business employees fall into categories that tend not to seek training

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- many small businesses are already learning satisfactorily in other ways. Research shows that a great deal of learning occurs informally, quite unrelated to structured training

This information is not to suggest that no small business would benefit from training, but the size and composition of the market should be investigated with more rigour than in the past. While it may be controversial to claim that many small businesses don't need training or publicly funded help, it may nevertheless be a fact.

Is there a small business training market?

Generic small business training products are targeted at and designed for a homogenous market. They are also designed for delivery by an instructor or provider. At best, despite the substantial flexibility that can be built into the delivery method, they will still not match the learning style of an individual small business or fit within the context of the small business. A number of reports (BIE 1991, Coopers & Lybrand 1994a, 1994b) have commented on the 'lack of market orientation' of most small business training.

Two possible ways of breaking up the market to recognise its diversity have been suggested. The first relates to the stage of business (i.e. intender, developer, survivor). The second categorises small businesses according to their attitude to training. For example, they:

- already train
- might train
- should train
- don't need to train or won't ever train

These two ways of looking at small business are quite useful in identifying a broad strategy for developing training products and approaches or for devising a marketing strategy. However, in assisting an individual small business to work out which training option suits its business problem, they are of limited use.

Small business chooses to train as a consequence of some aspect of its business—a problem to which there may be a training answer. The skills or information that they require vary according to characteristics including:

- number, skills and functions of staff
- size
- stage of development or stage of business cycle they are at
- attitudes to training and awareness of options
- geographic location
- gender or ethnicity of the owner-manager
- industry sector
- prior education of the owner-manager

All have an effect on determining how the training or learning should take place and the content involved. Each small business will learn in a distinct way that depends on the context in which the business operates. Research also shows that skills and information are highly dependent on the context in which they are used—they change quite substantially in different business settings. In short, when a small business decides to train, the approach and content are likely to be unique to that small business.

This market diversity and the difference in approach to the learning strategies leads to some broad conclusions:

- Different approaches and different training options are needed for beginning small businesses and those which have been successful over a number of years. Insufficient attention has been paid to the training needs of the latter group.
- Those already involved in training require strategies different from those who might be attracted to training. Marketing strategies should focus on the business circumstances of the small business not on training as the answer to business problems.
- A more flexible approach that is about 'learning' not 'delivery' is needed for those not yet involved in training.

Small business should have one-to-one access to business counsellors so that particular problems can be assessed in terms of how training could potentially provide a solution. The surrogate business counsellors that small business currently accesses (accountants, lawyers and industry associations) do not necessarily know enough about the training sector to give quality advice. Counsellors would need to be skilled in small business management, be good analysts and understand available training options.

What are the attitudes of small businesses to training?

The attitude to training of small business is well documented and well known to training practitioners but not necessarily understood. Kearns (1995) has summarised the essence of small business attitudes:

> *There is a tendency for training to be seen as a cost, not an investment. Many small business owners and managers regard training as irrelevant to their business needs with courses too general and not sufficiently focussed on the practical problems of running a small business. This general attitude is often compounded by the absence of management education and training in owners/managers, pressures of time and financial viability and the absence of specialist training personnel in small firms. It is not surprising that there is a lack of awareness in the small business sector of the value and benefits of training.*

How do they make decisions to train?

What are the skills most valued by small businesses and which may prompt them to seek training?

Coopers & Lybrand (1994b) identified these as:

- ability to turn one's hand to anything
- financial skills
- people management
- interpersonal/communications skills
- business planning

Marketing and customer service also rate highly. Technical and industry-related skills (suitably customised) are important but not as much as those above. Over 75% of small businesses were aware of the need for these skills before they started their business. Of course all of these skills are freely available through TAFE or private providers—but not in a form specifically relevant to individual small businesses.

Small business almost invariably decides to train (and by training you should read learn, acquire information and skills, informal in-house training, networking and external training) because of some issue or problem that arises in the course of conducting their business. For example:

- government or licensing requirements such as occupational health and safety (OH&S), quality registration for government contracts or trade qualification certificates
- introduction of new technology
- decision to expand/export
- crisis in the business (such as new competition from a national/larger firm, take-overs, financial difficulties or loss of a dominant customer)
- requirements imposed by banks for capital loans: for example, formal business plans

Some firms, by the nature of their business, are more likely to participate in training. Examples include firms where:

- technical or product knowledge is required of staff working at basic levels in the organisation, particularly if the products are regularly renewed
- customer service and quality are key aspects of their competitive edge
- frequent changes are made to their production processes
- they are small information technology companies

Decisions to train are clearly not related to the intrinsic value of training. Training or awareness of its benefits is not the necessary incentive; nor when a problem or issue arises in the business does training automatically present as an answer. For small business, external training is even further from their minds as a solution because:

- there is insufficient segmentation in the marketing and design of courses. They are not 'market orientated'
- general courses are pitched at multiple audiences
- the preferred model of training for small business is quite different from that used by external providers even if they customise content and make delivery flexible

Preferred models

Whether or not external providers are the preferred model, about 25% of small business do make use of them for some of their training. In such cases providers should note the models that small businesses have indicated match their needs.

According to Coopers & Lybrand (1994b), effective programs are considered to have the following characteristics. They:

- *relate to specific problems and opportunities*
- *result from a detailed review of target market needs*
- *are pitched at the appropriate level*
- *are linked to the environment from which the audience is drawn*
- *are designed to use time effectively*
- *encourage action and peer group learning*
- *involve a discursive, rather than passive learning system*

The individual nature of small businesses should be accommodated in the relationship between the provider and the small business. Gibb (1987) has outlined training practices that do this in the following way:

conventional approach to training	entrepreneurial approach to training
focus on content	focus on process of delivery
trainer as expert	participants own learning
emphasis on 'know that'	'know how' and 'know who'
received passively	participants generate content
pre-planned sessions	flexible responsive sessions
imposed objectives	objectives negotiated
mistakes seen as errors	mistakes seen as opportunities
emphasis on theory	practical emphasis
focus on subject	discuss around examples/problems
training provider orientation	market orientation, recognising individual business needs and independence

This approach is most likely to be successful when undertaken by a trainer with credibility in the eyes of small business—one of their own such as a previous small business owner-manager. Timing and location are important and small business has indicated strong preferences for group training, self-paced modules and distance education. With effective marketing of externally provided training that meets the criteria outlined above, it is anticipated that a larger proportion of the remaining 75% will be encouraged to participate in training.

However, the research suggests that two other factors should be addressed when developing a model that meets the needs of small businesses not automatically attracted to external training. These include recognition of the diverse ways that a small business already operates and devising learning strategies that extend and complement them. Furthermore, the value and importance of the networks that exist within small businesses (clients, suppliers, bankers, agents etc.) should not be underestimated when assessing the needs of the organisation and its consequent training requirements.

If the VET sector is to secure a place in the world of small business, then it has to penetrate the networks they are part of. For example, accountants need to know and understand available training options and believe in their value so that they form part of the advice they give to small business. Similarly, the VET sector needs to make use of the small business networks as a key learner. This possibly explains why mentoring is such a successful training strategy for small businesses at the local level.

Comments and suggestions regarding this publication are welcome. They should be directed to the address below.

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